

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name IOSCO-ARENAC DISTRICT LIBRARY	County IOSCO
Audit Date 12/31/2005	Opinion Date 01/30/2006	Date Accountant Report Submitted to State: 03/25/2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

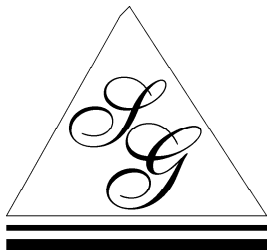
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature  Donald W. Brannan CPA		Digitally signed by Stephenson, Gracik and Co., P.C. DN: cn=Stephenson, Gracik and Co., P.C., c=US Date: 2005.02.14 14:30:02 -05'00'	



*Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

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Herman A Bertuleit, CPA

IOSCO - ARENAC DISTRICT LIBRARY  
EAST TAWAS, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED DECEMBER 31, 2005

## I\_N\_D\_E\_X

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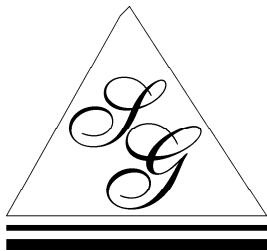
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# *Stephenson Gracik & Co., P.C.*

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January 30, 2006

## Independent Auditors' Report

Members of the Board  
Iosco - Arenac District Library  
East Tawas, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Iosco - Arenac District Library, East Tawas, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the Library's basic financial statements, as listed in the index. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Iosco - Arenac District Library, East Tawas, Michigan, as of December 31, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2006, on our consideration of the Iosco - Arenac District Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Iosco - Arenac District Library's basic financial statements. The details of other revenue and miscellaneous expenditures statement is presented for purposes of additional analysis and is not a required part of the basic financial statements. The details of other revenue and miscellaneous expenditures statement has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Stephenson, Gracik & Co., P.C.*



# Iosco-Arenac District Library

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the **Iosco-Arenac District Library**, (the Library) we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year ended December 31, 2005.

### Financial Highlights

- The Library applied for and was awarded two grants in 2004. The first was a Reed Act/Gates Foundation grant for Broadband Internet upgrades for all eight library locations. The Library received the funding of \$23,171 in 2004, but all final activity associated with the grant was completed in 2005. The \$23,171 received for the grant in 2004 was recognized as revenue in 2005.
- The second grant was a Library Services and Technology (LSTA) grant, administered by the Library of Michigan, for \$25,000. The grant allowed for expenses related to automation and MelCat readiness for the statewide database of library holdings and circulation. Expenses were reimbursed. The Library completed part of the activities in 2004, and was reimbursed for \$18,098. The grant-funded portion of the project was completed in 2005, and the Library was reimbursed for remaining expenditures in the amount of \$6,902.
- Penal fines (funds received from penal code violations mainly through District Courts) fluctuate from year to year. The Library adjusted the budget to the actual amount received which was \$15,022 more than originally budgeted.
- A millage was approved by the District voters in 2004, and placed on the December 2004 tax roll. Revenues from the millage (.5 mills on the taxable value of real and personal property of Arenac County and Iosco County) were received during calendar year 2005, in the amount of \$680,521, which includes a renaissance reimbursement from the State of \$4,833. A revenue sharing plan to assist local units of government with their expenditures for library operations was started and is considered in the audit as "branch allocation". Half of the actual amount received from the millage was distributed to local units of government, for library purposes only, in April and September. The formula used for the first year was based on the library hours with Arenac revenues remaining for Arenac distribution and Iosco revenues remaining for Iosco distribution. In 2005, \$324,600 was shared. A small amount of additional revenue was received after the second distribution that will be shared in 2006. The Library is not held harmless from various tax captures including DDA, TIFA, IFTA, and Brownfields which affect the actual amount received. Charge backs (late year taxable value changes requiring funds to be returned) also affect the actual amount received. The Library currently operates Mary Johnston Memorial Library (Standish) under an agreement entered into in 1995. Millage revenue for Standish and expenditures for Standish are accounted for separately from the rest of the millage. Any unspent funds for Standish are designated at year end for Standish.

- The Library was able to purchase and process more library materials. The Library was also able to complete work on the Horizon automation system and “go live” using the automated circulation system in July 2005. To accomplish these activities the library increased hours for one part-time staff, made another part-time staff full-time, and extended the hours of two temporary employees for bar-coding and data entry. The budgets for wages and benefits were adjusted accordingly.

## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Library’s basic financial statements. The basic financial statements are comprised of three components:

(1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The Library also includes in this report other supplementary information in addition to the basic financial statements themselves.

### ***Government-wide Financial Statements***

The *statement of net assets* provides information on all of the Library’s assets and liabilities, with the difference between the two being reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The *statement of activities* provides information showing how the Library’s net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

The government-wide financial statements are presented in Exhibits A and B of this report.

### ***Fund financial statements***

A fund is an accountability unit used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related laws and regulations.

### ***Governmental funds***

*Governmental funds* are reported in the fund financial statements and encompass essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the Library’s governmental fund. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government’s short-term financing requirements.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balance provide a reconciliation to assist in understanding the differences between these two perspectives.

The Library adopts an annual budget and budgetary comparison statements are included in the basic financial statements to demonstrate compliance.

The government fund financial statements are presented in Exhibits C and E of this report.

## Notes to Financial Statements

The accompanying notes to financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to financial statements are presented in Exhibit G of this report.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to the Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual. This information can be found in Exhibit H of this report.

### Analysis of Financial Position:

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Iosco-Arenac District Library, assets exceeded liabilities by \$977,088 at the close of the fiscal year.

### Summary of Net Assets:

The following summarizes the net assets of the Iosco-Arenac District Library at December 31, 2005 and 2004:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Current Assets	\$ 604,495	\$ 396,706
Capital Assets – net	<u>393,047</u>	<u>357,911</u>
<b>Total Assets</b>	<u>997,542</u>	<u>754,617</u>
Current Liabilities	9,230	31,510
Long-Term Liabilities	<u>11,224</u>	<u>8,437</u>
<b>Total Liabilities</b>	<u>20,454</u>	<u>39,947</u>
<b>Net Assets</b>		
Invested in Capital Assets	393,047	357,911
Unrestricted	<u>584,041</u>	<u>356,759</u>
<b>Total Net Assets</b>	<u>\$ 977,088</u>	<u>\$ 714,670</u>

### Budgetary Highlights

The Iosco-Arenac District Library's budget is prepared according to Michigan law.

During the fiscal year ended December 31, 2005, the Library amended the budget to take into account events occurring during the year. These budget amendments fall into the following categories:

- Changes made to reflect increases or decreases in anticipated expenditures.
- Changes made to reflect increases or decreases in anticipated revenues.

- Total revenue from millage was higher than anticipated due in part to changes in taxable value. The Library was held harmless from losses in revenue associated with the Renaissance Zone located on the former Wurtsmith Air Force Base in Oscoda. An end of year “charge back” to Arenac County also affected the budget.
- The Library adjusted the budget to reflect an increase in the total penal fines revenue.
- Employment costs increased and the budget was adjusted accordingly to increase hours for one part-time staff for book processing, make another part-time staff full-time for technology, and keep two temporary staff for a longer period for the bar-coding project.
- A budget adjustment was made by the Library to allow for increased spending for library books. Backordered materials (Books-Adult) were not invoiced and did not arrive before year end.
- Significant increases in travel by temporary staff (bar-coding project), library staff working to train and set-up for automation, and increased gasoline prices affected the budget for travel. The budget was adjusted accordingly to reflect the increase from \$.15 per mile to \$.32 per mile for Board and staff mileage.

## **Capital Asset and Debt Administration**

### **Capital Assets**

The Library’s investment in capital assets as of December 31, 2005, amounted to \$393,047 (net of accumulated depreciation). This investment in capital assets includes library materials, furniture, fixtures and equipment, and vehicles. Capital assets for the Library increased by \$35,136 or 10%. The major capital asset events for the current fiscal year were the purchase of various computers and library materials. Total depreciation expense for this year amounts to \$99,592 with ending accumulated depreciation being \$870,476.

#### **Capital Assets Summary** (Net of depreciation)

Library materials	\$ 340,323
Furniture, fixtures and equipment	52,724
Vehicles	<u>0</u>
<b>Capital Assets - net</b>	<b><u>\$ 393,047</u></b>

Additional information on capital assets can be found in Exhibit G of this report.

### **Compensated Absences**

Compensated absences for the Library at fiscal year end amount to \$11,224. This is the accumulated amount of benefits set aside for vested employees. Accrued leave benefits are shown as a liability on the government-wide financial statements.



### Summary of Revenues and Expenses:

The following summarizes the revenues and expenses of the Iosco-Arenac District Library at December 31, 2005 and 2004:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
<b>Program Revenues:</b>		
Charges for services	\$ 450	\$ 14,860
Operating grants and contributions	43,626	38,926
Capital grants and contributions	<u>30,073</u>	<u>18,098</u>
<b>Total Program Revenues</b>	74,149	71,884
 <b>Program Expenses</b>	 <u>857,768</u>	 <u>466,836</u>
 <b>Net Program Expense</b>	 <u>(783,619)</u>	 <u>(394,952)</u>
 <b>General Revenues:</b>		
Property Taxes	675,688	0
Penal fines:		
Iosco County	199,552	168,590
Arenac County	135,470	157,883
Investment earnings	19,485	4,014
Gain on sale of capital assets	330	504
Other	<u>15,512</u>	<u>10,896</u>
<b>Total General Revenues</b>	<u>1,046,037</u>	<u>341,887</u>
 <b>Change in Net Assets</b>	 <u>\$ 262,418</u>	 <u>\$ (53,065)</u>

### Economic Factors and Next Year's Budget

Total taxable value will be higher. Headlee will affect millage amount changing the amount from .5 to .4954.

Penal fines will continue to be threatened by State legislative action to deflect fines away from libraries.

State Aid will be reduced by 3-5%. The District is less dependent on State Aid (approximately 3% of revenues).

Interest income will increase (approximately 3% of revenues).

Stable funding from millage (approximately 62% of revenues) will continue to allow the Library to:

- Revenue share with the eight units of government operating library branches (branch allocation).
- Increase the budgets for purchasing, processing and delivery of books, periodicals and audio/CD books.
- Replace aging computers, and add computers, for staff and public access. Allow for all library locations to have online public access computers designated for and restricted to searching and requesting library materials. Educate the public and staff on the use and value of new technology.

Penal fine revenue (approximately 30% of revenues) will allow the Library to:

- Enable library branches and co-sponsoring organizations to coordinate and/or host programs for adults through a mini-grant program funded and administered by the District.
- Enable the District to begin an extensive marketing program.
- Allow for the hiring of a part-time staff person for delivery of materials to branch libraries and increase hours for the processing staff.

The Library will continue to seek grant funding and public and private donations for projects in support of the Mission and Vision for the Iosco-Arenac District Library.

The Library lease with the City of East Tawas may be subject to non-renewal if the City elects to utilize the entire building for the East Tawas Branch. If notified of non-renewal, the District will begin to pursue a different location for the Administrative Headquarters.

### **Requests for Information**

This financial report is designed to provide a general overview of the Iosco-Arenac District Library finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District Director, 120 W. Westover, East Tawas, Michigan 48730.

IOSCO - ARENAC DISTRICT LIBRARY  
East Tawas, Michigan

STATEMENT OF NET ASSETS  
December 31, 2005

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents (Note 2)	\$ 604,495
Capital assets, net (Note 5)	<u>393,047</u>
 Total Assets	 <u>997,542</u>
<u>Liabilities</u>	
Accounts payable	3,653
Accrued liabilities	5,577
Long-term liabilities:	
Due in more than one year (Note 6)	<u>11,224</u>
 Total Liabilities	 <u>20,454</u>
<u>Net Assets</u>	
Invested in capital assets	393,047
Unrestricted	<u>584,041</u>
 Total Net Assets	 <u>\$ 977,088</u>

The accompanying notes to financial statements are an integral part of this statement.

IOSCO - ARENAC DISTRICT LIBRARY  
East Tawas, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2005

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
				<u>Governmental Activities</u>
Governmental activities:				
Recreation and cultural	\$ 857,768	\$ 450	\$ 43,626	\$ 30,073
				\$ (783,619)
General Revenues:				
Property taxes				675,688
Penal fines:				
Iosco County				199,552
Arenac County				135,470
Investment earnings				19,485
Gain on sale of capital assets				330
Other				15,512
Total general revenues				1,046,037
Change in net assets				262,418
Net assets - beginning of year				714,670
Net assets - end of year				\$ 977,088

The accompanying notes to financial statements are an integral part of this statement.

IOSCO - ARENAC DISTRICT LIBRARY  
East Tawas, MichiganBALANCE SHEET  
GOVERNMENTAL FUND  
December 31, 2005ASSETS

Cash and cash equivalents (Note 2)	\$ 604,495
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LIABILITIES AND FUND EQUITYLiabilities

Accounts payable	\$ 3,653
Accrued liabilities	<u>5,577</u>
Total liabilities	<u>9,230</u>

Fund Equity

Fund balance:	
Unreserved:	
Designated (Note 1)	287,367
Undesignated	<u>307,898</u>
Total fund equity	<u>595,265</u>

Total Liabilities and Fund Equity	\$ <u>604,495</u>
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The accompanying notes to financial statements are an integral part of this statement.

IOSCO - ARENAC DISTRICT LIBRARY  
East Tawas, MichiganRECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
December 31, 2005

Total governmental fund balance: \$ 595,265

Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not financial resources  
and, therefore, are not reported as assets in the governmental fund. Capital  
assets at year end consist of:

Capital asset cost	\$ 1,263,523	
Capital asset accumulated depreciation	<u>(870,476)</u>	
		393,047

Long-term liabilities are not due and payable in the current period and,  
therefore, are not reported as liabilities in the governmental fund. Long-term  
liabilities at year end consist of:

Compensated absences payable	<u>(11,224)</u>	
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Total net assets - governmental activities \$ 977,088

The accompanying notes to financial statements are an integral part of this statement.

IOSCO - ARENAC DISTRICT LIBRARY  
East Tawas, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
 IN FUND BALANCE  
 GOVERNMENTAL FUND  
For the Year Ended December 31, 2005

Revenue

Property taxes	\$ 675,688
Federal grants	30,073
State revenue	43,626
Penal fines - Iosco County	199,552
Penal fines - Arenac County	135,470
Standish branch revenue	450
Interest earned	19,485
Other	<u>15,512</u>
Total revenue	<u>1,119,856</u>

Expenditures

Salary, wages and fees	223,928
Payroll taxes and employee benefits	58,499
Periodicals	5,429
Advertising	2,671
Dues and memberships	2,586
Book processing	6,426
Membership fees	16,014
Professional services	2,600
Office supplies	6,156
Printing	2,923
Travel	9,360
Insurance	7,799
Education and training	1,357
Miscellaneous	12,980
Repairs and maintenance	2,351
Telephone	1,517
Building rental	8,500
Standish branch expense	255
Branch allocations	324,600
Automation expense	24,183
Internet access expense	32,419
Vehicle expense	2,836
Capital outlay:	
Furniture, fixtures and equipment	21,640
Library materials	<u>113,193</u>
Total expenditures	<u>890,222</u>

Excess of revenue over expenditures	229,634
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Other Financing Sources

Sale of fixed assets	<u>435</u>
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Excess of revenue and other sources over expenditures	230,069
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Fund balance - beginning of year	<u>365,196</u>
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Fund balance - end of year	<u>\$ 595,265</u>
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The accompanying notes to financial statements are an integral part of this statement.

IOSCO - ARENAC DISTRICT LIBRARY  
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND  
 TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2005

Total net change in fund balance - governmental fund	\$	230,069
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Amounts reported for governmental activities in the statement of activities are different because:

The governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Current year depreciation expense	\$	(99,592)
Capital outlays reported in the governmental fund		<u>134,833</u>
Net difference		35,241

Net change in accrued compensated absences:

Accrued compensated absences December 31, 2004	8,437	
Accrued compensated absences December 31, 2005		<u>(11,224)</u>
Net change		(2,787)

In the statement of activities, only the gain on the sale of assets is recorded, whereas in the governmental fund, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net basis of the assets sold.

(105)

Change in net assets of governmental activities	\$	<u>262,418</u>
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The accompanying notes to financial statements are an integral part of this statement.



IOSCO - ARENAC DISTRICT LIBRARY  
East Tawas, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Library conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. Private-sector standards of accounting issued after November 30, 1989, are generally followed in the government-wide fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies.

A. Reporting Entity

The Iosco - Arenac District Library operates as a joint venture between Iosco and Arenac counties. The Library was organized in 1990 under an agreement entered into by the Iosco and Arenac County Boards of Commissioners. The Library operates under an appointed board of eight members. Four members each are appointed by the Iosco and Arenac County Boards of Commissioners. The Library provides services to residents of Iosco County and Arenac County.

The Library's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. All activities over which the Library exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Basis of Presentation

The Library's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the Library as a whole. These statements include the financial activities of the primary government.

The statement of net assets presents the financial condition of the governmental activities of the Library at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Library's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Library, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Library.

C. Fund Accounting

The Library uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The statements distinguish between those activities of the Library that are governmental and those that are considered business-type activities. The Library does not currently have any business-type activities.

IOSCO - ARENAC DISTRICT LIBRARY  
East Tawas, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting (Continued)

**Governmental Fund**

Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the governmental fund according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The Library's special revenue fund is considered a governmental fund.

D. Measurement Focus

**Government-Wide Financial Statements**

The government-wide financial statements are prepared using the economic resources measurement focus.

All assets and all liabilities associated with the operation of the Library are included on the statement of net assets.

**Fund Financial Statements**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Revenues – Exchange and Nonexchange Transactions**

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recognized in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Library, available means expected to be received within sixty days after year end.

IOSCO - ARENAC DISTRICT LIBRARY  
East Tawas, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Accounting (Continued)

Nonexchange transactions, in which the Library receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Library must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Library on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the Library's revenue sources are considered both measurable and available at year end.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures :

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, is not recognized in governmental funds.

F. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

G. Budgets and Budgetary Accounting

The Library normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Library director submits to the Board a proposed operating budget which includes proposed expenditures and the means of financing them.

IOSCO - ARENAC DISTRICT LIBRARY  
East Tawas, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgets and Budgetary Accounting (Continued)

2. A public hearing is conducted to obtain comments.
3. Prior to January 1, the budget is legally enacted through board approval.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the Library Board.

Budgets shown in the financial statements are adopted on a basis consistent with GAAP, and consist only of those amounts contained in the formal budget approved and amended by the Library Board.

H. Assets, Liabilities and Fund Equity

Inventories:

Inventories are not recognized, whereby materials and supplies are expensed as purchased.

Fund Balances:

Designated fund balance represents the assets to be used for future building improvements, vehicle and other equipment purchases, Standish Branch Library reserve fund, technology, penal fine recovery and the merit network.

I. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Library are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

J. Capital Assets

General capital assets are those assets that result from expenditures in the governmental fund. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$500 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Library does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

IOSCO - ARENAC DISTRICT LIBRARY  
East Tawas, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives.

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Library materials	7 years
Furniture, fixtures and equipment	5 – 7 years
Vehicles	5 years

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

L. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the Library will compensate the employees for the benefits through paid time off or some other means. The Library records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "accrued compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Library's deposits were reported in the basic financial statements in the following categories:

Cash and Cash Equivalents	<u>\$ 604,495</u>
---------------------------	-------------------

The breakdown between deposits is as follows:

Bank Deposits (checking and savings accounts)	\$ 2,655
Investments in money market funds	601,815
Petty Cash	<u>25</u>
Total	<u>\$ 604,495</u>

IOSCO - ARENAC DISTRICT LIBRARY  
East Tawas, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

As of December 31, the Library had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Money Market Funds	<u>\$ 601,815</u>	Daily

Credit Risk

As of December 31, 2005, the Library's investments consisted entirely of investment in the Fifth Third Institutional Government Money Market Fund. This fund was rated AAAM by Standard & Poor's and AAA by Fitch Ratings.

Custodial Credit Risk – Deposits – Primary Government

In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. As of December 31, 2005, \$0 of the Library's bank balance of \$20,771 was exposed to custodial credit risk.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the Library's investment policy which is in accordance with State law.

Concentration of Credit Risk, Interest Rate Risk and Foreign Currency Risk

The Library's investment policy does not address concentration of credit risk, interest rate risk or foreign currency risk.

Investments:

The Library Board has adopted an investment policy in accordance with Act 196, PA 1997, which authorizes the Library to deposit and invest in the following:

- \* Accounts of federally insured banks, credit unions and savings and loan associations
- \* Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- \* United States government or federal agency obligation repurchase agreements
- \* Banker's acceptances of United States banks
- \* Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase

IOSCO - ARENAC DISTRICT LIBRARY  
East Tawas, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2005NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments: (Continued)

- \* Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Library's deposits and investments are in accordance with statutory authority.

NOTE 3 - PROPERTY TAXES

Property taxes include amounts levied against all real property and tangible personal property located in Iosco and Arenac County. Property taxes become an enforceable lien on property as of December 1. Taxes are levied on December 1, and are payable by February 28 before they are added to the County tax rolls.

NOTE 4 - UNEMPLOYMENT COMPENSATION

The Library is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Library must reimburse the Employment Agency for all benefits charged against the Library. All liabilities incurred have been accrued in the financial statements as of December 31, 2005.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Government Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated:				
Library Materials	\$ 924,796	\$ 113,193	\$ 71,486	\$ 966,503
Furniture, Fixtures and Equipment	275,888	21,640	20,643	276,885
Vehicles	20,135	0	0	20,135
Subtotal	<u>1,220,819</u>	<u>134,833</u>	<u>92,129</u>	<u>1,263,523</u>
Less Accumulated Depreciation for:				
Library Materials	618,570	79,095	71,485	626,180
Furniture, Fixtures and Equipment	224,203	20,497	20,539	224,161
Vehicles	20,135	0	0	20,135
Subtotal	<u>862,908</u>	<u>99,592</u>	<u>92,024</u>	<u>870,476</u>
Governmental Activities Total				
Capital Assets—Net of Depreciation	<u>\$ 357,911</u>	<u>\$ 35,241</u>	<u>\$ 105</u>	<u>\$ 393,047</u>

IOSCO - ARENAC DISTRICT LIBRARY  
East Tawas, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2005

NOTE 6 - LONG-TERM DEBT

Compensated Absences

The Iosco - Arenac District Library has a vacation pay policy that allows employees to accumulate vacation days after three full months of employment. Annual leave cannot be accumulated for more than a twelve month period of time without permission of the Director, and accumulated vacation pay is paid only upon separation by retirement or resignation. At December 31, 2005 the annual amount of accumulated vacation pay was \$11,224. All of which is due in more than one year.

Changes in Long-Term Liabilities

	<u>Balance</u> <u>January 1, 2005</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>December 31, 2005</u>
<u>Governmental Activities</u>				
Primary Government:				
Compensated absences	<u>\$ 8,437</u>	<u>\$ 2,787*</u>	<u>\$ 0</u>	<u>\$ 11,224</u>

\* Represents net of additions and retirements for the year.

NOTE 7 - PENSION PLAN

The Library has a defined contribution pension plan with American United Life Insurance Company effective March 1, 1999. All full-time employees are covered under the plan. Eligibility to become a participant is limited to those employees who, on the effective date or on any anniversary date have attained the age of 18 and have completed at least three months of service. Vesting is 100% upon entering the plan. The Library is required to contribute an amount equal to a \$100 contribution per \$1,000 of base salary for the year. During 2005, the Library's required and actual contributions amounted to \$17,598. No pension provision changes occurred during 2005 that affected the required contributions to be made by the Library.

NOTE 8 - RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Library continues to carry commercial insurance for risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 9 - LEASE COMMITMENTS

The Library has entered into a lease agreement with the City of East Tawas, for the rental of certain building space in East Tawas. The lease is for a period of five years, expiring July 31, 2006, payable in quarterly installments of \$2,125. If the Library terminates the lease early, they shall be liable to the City for one year's rent. The Library shall also pay the City an amount equal to 50% of the increase in utility expenses from the first year to the second year; and an amount equal to 50% of the increase in utility expenses for each year thereafter. The total rent expense of all lease payments for the year ended December 31, 2005 were \$8,500.



REQUIRED SUPPLEMENTARY INFORMATION

IOSCO - ARENAC DISTRICT LIBRARY  
East Tawas, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
 IN FUND BALANCES - BUDGET AND ACTUAL  
For the Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Property taxes	\$ 613,040	\$ 670,735	\$ 675,688	\$ 4,953
Federal grants	9,400	30,073	30,073	0
State aid	38,800	38,793	38,793	0
State revenue - renaissance reimbursement	0	4,833	4,833	0
Penal fines - Iosco County	190,604	199,552	199,552	0
Penal fines - Arenac County	129,396	135,470	135,470	0
Standish branch revenue	398	450	450	0
Interest earned	3,000	12,000	19,485	7,485
Other	5,900	13,431	15,512	2,081
Total revenue	<u>990,538</u>	<u>1,105,337</u>	<u>1,119,856</u>	<u>14,519</u>
<u>Expenditures</u>				
Salary, wages and fees	218,263	227,714	223,928	3,786
Payroll taxes and employee benefits	70,496	63,414	58,499	4,915
Periodicals	5,970	6,816	5,429	1,387
Advertising	4,000	4,000	2,671	1,329
Dues and memberships	3,200	3,200	2,586	614
Book processing	7,066	8,068	6,426	1,642
Membership fees	19,500	19,449	16,014	3,435
Professional services	3,200	3,000	2,600	400
Office supplies	9,300	9,300	6,156	3,144
Printing	2,300	3,000	2,923	77
Travel	4,500	10,000	9,360	640
Insurance	7,800	8,000	7,799	201
Education and training	5,000	3,000	1,357	1,643
Contingency	45,500	100,333	0	100,333
Miscellaneous	16,400	18,000	12,980	5,020
Repairs and maintenance	4,700	3,700	2,351	1,349
Telephone	3,200	2,500	1,517	983
Building rental	8,600	8,600	8,500	100
Standish branch expense	346	257	255	2
Branch allocations	306,673	343,898	324,600	19,298
Automation expense	58,000	55,500	24,183	31,317
Internet access expense	34,000	33,000	32,419	581
Utilities	500	500	0	500
Vehicle expense	4,000	4,600	2,836	1,764
Capital outlay				0
Furniture, fixtures and equipment	25,560	26,560	21,640	4,920
Library materials	124,464	142,116	113,193	28,923
Total expenditures	<u>992,538</u>	<u>1,108,525</u>	<u>890,222</u>	<u>218,303</u>
Excess of revenue over (under) expenditures	(2,000)	(3,188)	229,634	232,822
<u>Other Financing Sources</u>				
Sale of fixed assets	<u>0</u>	<u>435</u>	<u>435</u>	<u>0</u>
Excess of revenue and other sources over (under) expenditures	(2,000)	(2,753)	230,069	232,822
Fund balance - beginning of year	<u>365,196</u>	<u>365,196</u>	<u>365,196</u>	<u>0</u>
Fund balance - end of year	<u>\$ 363,196</u>	<u>\$ 362,443</u>	<u>\$ 595,265</u>	<u>\$ 232,822</u>

The accompanying notes to financial statements are an integral part of this statement.

## OTHER INFORMATION

IOSCO - ARENAC DISTRICT LIBRARY  
East Tawas, Michigan

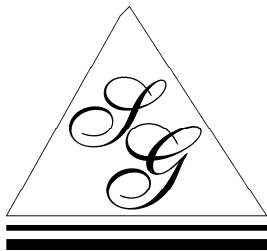
DETAILS OF OTHER REVENUE AND  
 MISCELLANEOUS EXPENDITURES  
For the Year Ended December 31, 2005

Other Revenue

Fines and forfeitures	\$	3,469
Children's programming		3,245
Gifts and memorials		2,086
Community cash		818
Refunds and rebates		4,141
Miscellaneous		<u>1,753</u>
	\$	<u>15,512</u>

Miscellaneous Expenditures

Fines and fees	\$	4
Children's programming		10,302
Gifts and memorials		417
Community cash		1,332
Contracted services		913
Miscellaneous		<u>12</u>
	\$	<u>12,980</u>



*Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA

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Herman A Bertuleit, CPA

January 30, 2006

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board  
Iosco - Arenac District Library  
East Tawas, Michigan

We have audited the financial statements of the governmental activities and major fund of the Iosco - Arenac District Library as of and for the year ended December 31, 2005, which collectively comprise the Library's basic financial statements and have issued our report thereon dated January 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Iosco - Arenac District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Iosco - Arenac District Library's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described below:

Separation of Duties in the Performance of Functions

The present system of internal accounting controls does not provide for separation of duties in the performance of functions. In our opinion, the system is adequate to account for the financial activity of the Library but, could be strengthened by a few minor changes in the personnel assigned to perform certain functions.

We recommend that the cash receipts and cash disbursements functions be handled by different individuals. Cash receiving should be centralized in a person without authority to sign checks, without access to noncash accounting records and not involved in reconciling bank accounts. A different person should prepare checks and reconcile the bank accounts.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

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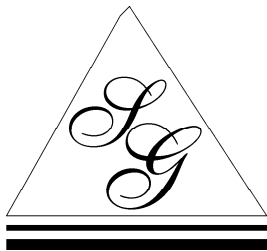
Members of the Board  
Iosco - Arenac District Library  
January 30, 2006  
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iosco - Arenac District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Library Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grailh & Co., P.C.*



# *Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
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Kyle E Troyer, CPA

-----  
Herman A Bertuleit, CPA

January 30, 2006

Members of the Board  
Iosco-Arenac District Library  
East Tawas, Michigan

Dear Board Members:

We have audited the financial statements of the Iosco-Arenac District Library for the year ended December 31, 2005, and have issued our report thereon dated January 30, 2006. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated February 16, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the Library's internal control. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance on the internal control.

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

## Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Iosco-Arenac District Library are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Iosco-Arenac District Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

## Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

## Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Iosco-Arenac District Library's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Iosco-Arenac District Library, either individually or in the aggregate, indicate matters that could have significant effect on the Iosco-Arenac District Library's financial reporting process.

Members of the Board  
Iosco-Arenac District Library  
January 30, 2006  
Page Two

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Iosco-Arenac District Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

#### Additional Information

As a result of our study and evaluation of the internal controls as described in the third and fourth paragraphs, one matter came to our attention upon which we would like to comment and offer the following recommendations.

#### Separation of Duties in the Performance of Functions

The present system of internal accounting controls does not provide for separation of duties in the performance of functions. In our opinion, the system is adequate for the financial activity of the Library but, could be strengthened by a few minor changes in the personnel assigned to perform certain functions.

We recommend that the cash receipts and cash disbursements functions be handled by different individuals. Cash receiving should be centralized in a person without authority to sign checks, without access to noncash accounting records and not involved in reconciling bank accounts. A different person should prepare checks and reconcile the bank accounts.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Library.

This information is intended solely for the use of management, Library Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grault & Co., P.C.*